

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57849

CITY OF GRANITE FALLS

Snohomish County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: November 22, 1996

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CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Granite Falls is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in a separate letter dated September 26, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the

design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in a separate letter dated September 26, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. City Officials Should Develop Policies And Procedures For Cellular Phone Use

During our audit of the City of Granite Falls, we noted police officers and department supervisors have cellular phones which they use for personal and business calls. All calls are billed at the government contract rate and each individual pays for all of the calls on their bill. Under the terms and conditions of the contract with the cellular phone companies, the City of Granite Falls guarantees payment for the employees who use the government contract. In the event that an employee could not or would not pay the monthly bill, the City of Granite Falls would be liable for the amount of the debt.

The following problems were discovered with the use of these cellular phones:

- a. City officials terminated an employee in September 1994 and did not inquire of the cellular phone company as to whether the employee had paid the final monthly phone bill. The terminated employee was issued the final paycheck of \$1,399.39 before the city learned that the individual had failed to pay the outstanding cellular phone bill of \$440.53. The city was contacted in February 1996 by the cellular company about the city's obligation to pay the outstanding balance and, subsequently, the city paid the bill. The city has not been able to recover the money from the former employee. Public funds were used to pay the cellular phone bill.
- b. The city had an employee receive a cellular phone for his spouse through the government contract described above. The employee's spouse is not associated with the city in any way.
- c. City officials have not developed a formal policy for cellular phone use and do not have a system in place to ensure that the city will not be obligated to pay for personal cellular phone bills.

The *Constitution of the State of Washington*, Article VIII, Section 7, states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company corporation

State Auditor's Office Bulletin No. 14 states in part:

Local governments are responsible for controlling and managing their cellular telephones and the use of those phones. If personal use is allowed, the entity needs to establish a system to ensure individuals are responsible for the payment of their non-business or personal calls.

The city is in violation of the constitutional prohibition against the gift of public funds by paying the personal cellular phone bill of an individual. Furthermore, the city's guarantee for the payment of an employee's spouse's cellular phone bill constitutes a lending of credit to an individual. Finally, without a formal cellular phone policy, the city does not have procedures to follow when an employee leaves the city ensuring that the city will not have to pay a personal cellular phone bill.

We recommend city officials:

- a. Seek reimbursement for the \$440.53 paid by the city for the cellular phone bill.
- b. Allow only city employees to receive cellular phones under the government contract.
- c. Develop policies and procedures for cellular phones which address such points as need, purchase, and use.
- d. Adopt an agreement between the city and each employee in an effort to limit the city's liability for personal cellular phone bills.

Auditee's Response

City of Granite Falls Mayor, Rella Morris, responded to the preliminary draft of our finding in a letter dated October 18, 1996. The response follows:

- 1. The City of Granite Falls will seek reimbursement for the \$440.53 paid by the city for the cellular phone bill. The City Attorney is preparing correspondence to this individual.*
- 2. The City will only allow city employees to receive cellular phones under the government contract. The cellular phone issued to a spouse of an employee has been removed from the government contract.*
- 3. The City will develop policies and procedures for cellular phones owned by the employees under the government contract and for the phone owned by the City and used by the Mayor.*
- 4. The City will adopt an agreement between the City and each employee in an effort to limit the city's liability for personal cellular phone bills. In the future, when an employee leaves the employment of the City, we will contact the phone service provider for any outstanding charges before the final pay is issued.*

Auditor's Concluding Remarks

We appreciate the mayor's commitment to resolve the issues noted in our finding. Based on the response, the recommendations are being addressed and we will review this area in our next audit of the city.

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Granite Falls, Snohomish County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Granite Falls for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 1996, on our consideration of the city's internal control structure and a report dated September 26, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Granite Falls taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Granite Falls had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which have been reported to management in a separate letter dated September 26, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF GRANITE FALLS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor
City of Granite Falls
Granite Falls, Washington

We have audited the financial statements of the City of Granite Falls, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 26, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Relocation assistance and real property acquisition
 - Subrecipient monitoring
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the city had no major federal financial assistance programs and expended 51 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: COPS Ahead (CFDA 16.710).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the city in a separate letter dated September 26, 1996.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996